

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Family HealthCare Network (“FHCN”) 314 N. Main Street Porterville, CA 93257	Amount Requested:	\$750,000
		Requested Loan Term:	5 years
		Date Requested:	January 29, 2009
		Resolution Number:	HII-232
Project Site:	314 N. Main Street, Porterville, CA 93257, Fresno County		
Facility Type:	Community Clinic		
Eligibility Type:	Rural Facility		
Prior HELP II Borrower:	Yes (paid in full)		
Background: Established in 1976, FHCN is a licensed, nonprofit community clinic providing a full array of services including: family medicine, internal medicine, pediatrics, obstetrics and gynecology, dentistry, radiology, nutritional counseling, and transportation services. FHCN currently has over 90,000 patients who are served in center sites located in Porterville, Visalia, Ivanhoe, Woodlake, Springville, Three Rivers, Goshen, Hanford, and Cutler-Orosi.			
Rural Designation: FHCN qualifies as a rural facility under CHFFA underwriter guidelines and is thus exempt from the maximum revenues limitation of \$30 million under the program.			
Uses of Loan Proceeds: Loan proceeds will be used to purchase Electronic Health Records (EHR) software and two production servers.			
<u>Financing Structure</u>			
<ul style="list-style-type: none"> • 5-year fixed rate loan. • 60 equal monthly payments of approximately \$13,476 (yearly payments of about \$161,712). • UCC-1 lien on the equipment purchased. • Gross revenue pledge. • Loan to value ratio not to exceed 95% (estimated loan to value ratio of 95%). 			
Financial Overview: FHCN’s income statement appears to exhibit moderate positive operating results with continued revenue growth related to an increase in patient services. FHCN’s balance sheet appears strong with good liquidity, a strong current ratio, and significant net assets. In addition, proforma debt service coverage is a solid 2.07x.			
<u>Sources of Funds</u>		<u>Uses of Funds</u>	
HELP II Loan	\$750,000	Purchase EHR equipment	\$797,000
Borrower funds	<u>58,375</u>	Financing costs	<u>11,375</u>
Total Sources	<u>\$808,375</u>	Total Uses	<u>\$808,375</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends approval of a HELP II loan for Family HealthCare Network in an amount not to exceed \$750,000 for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority.			

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

Family HealthCare Network (“FHCN”)
Resolution Number: HII-232

I. PURPOSE OF FINANCING

***Electronic Health Record (EHR) Equipment* \$ 797,000**

The EHR equipment will improve patient access and care as providers will be better able to track and manage chronic diseases and prenatal care. The system will also improve patient safety by providing clinical decision support such as drug interaction alerts. The EHR equipment will also assist in the facilitation of clinical data used to identify outcomes, measure quality of care, and identify and quantify areas of improvement. The EHR equipment will also improve productivity over the course of time by eliminating the labor-intensive use of paper charts. Overall, the EHR equipment will help FHCN meet their organizational commitment to the improvement of quality of care, as it will help patients by speeding diagnosis, minimizing costly and life-threatening medical errors, and discouraging unnecessary tests and procedures

Based on the purchase price, the loan to value ratio will not exceed 95%.

***Financing Costs* 11,375**

Authority Fees..... 9,375
Other Fees..... 2,000

***Total Uses of Funds* \$ 808,375**

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II. FINANCIAL STATEMENTS AND ANALYSIS

Family HealthCare Network Statement of Activities Unrestricted

	For the Year Ended June 30,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues:			
Net patient services rendered	\$42,023,317	\$37,835,639	\$33,313,913
Grant revenue	8,182,951	8,132,871	7,679,926
Other income	281,459	417,948	219,843
Total revenue and support	<u>50,487,727</u>	<u>46,386,458</u>	<u>41,213,682</u>
Expenses:			
Salaries and benefits	37,877,913	33,645,268	31,198,568
Space costs	2,199,812	1,854,220	1,443,140
Supplies and drugs	2,924,006	2,875,095	2,420,212
Contractual services	2,557,248	2,214,984	1,936,287
Other operating expenses	1,996,966	1,878,259	1,714,511
Depreciation and amortization	919,396	821,813	803,830
Provision for bad debts	956,747	833,306	505,493
Interest	394,208	285,968	319,716
Travel	211,118	193,662	188,417
Insurance	94,336	46,872	51,038
Total expenses	<u>50,131,750</u>	<u>44,649,447</u>	<u>40,581,212</u>
Change in unrestricted net assets	355,977	1,737,011	632,470
Unrestricted net assets, beginning of year	<u>6,782,224</u>	<u>5,045,213</u>	<u>4,412,743</u>
Unrestricted net assets, end of year	<u>\$7,138,201</u>	<u>\$6,782,224</u>	<u>\$5,045,213</u>

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Family HealthCare Network
Financial Position

	As of June 30,		
	2008	2007	2006
ASSETS:			
Current assets:			
Cash and Cash Equivalents	\$1,108,904	\$705,353	\$481,553
Restricted cash and cash equivalents	3,154,096	-	-
Patient accounts receivable	3,276,322	3,090,122	2,662,755
Estimated third-party payor settlements	265,348	170,287	578,197
Grants receivable	57,926	-	-
Prepaid items and deposits	265,460	307,901	195,683
Total current assets	<u>8,128,056</u>	<u>4,273,663</u>	<u>3,918,188</u>
Noncurrent assets:			
Deferred charges	684,796	-	-
Property and equipment	8,197,759	7,658,098	7,171,710
Restricted cash and cash equivalents	554,213	-	-
Assets limited to use	2,196,753	2,818,433	2,044,696
Total noncurrent assets	<u>11,633,521</u>	<u>10,476,531</u>	<u>9,216,406</u>
 Total Assets	 <u><u>\$19,761,577</u></u>	 <u><u>\$14,750,194</u></u>	 <u><u>\$13,134,594</u></u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$623,024	\$596,288	\$538,914
Accrued payroll and other expenses	1,440,041	1,003,254	2,268,448
Deferred revenue	-	257,324	104,406
Accrued vacation	1,664,584	1,361,279	-
Long-term debt, current portion	251,973	385,930	422,050
Total current liabilities	<u>3,979,622</u>	<u>3,604,075</u>	<u>3,333,818</u>
Long-term debt, net of current portion	8,643,754	4,363,895	4,755,563
Total liabilities	<u>12,623,376</u>	<u>7,967,970</u>	<u>8,089,381</u>
Net assets:			
Unrestricted	7,138,201	6,782,224	5,045,213
TOTAL NET ASSETS	<u><u>7,138,201</u></u>	<u><u>6,782,224</u></u>	<u><u>5,045,213</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$19,761,577</u></u>	<u><u>\$14,750,194</u></u>	<u><u>\$13,134,594</u></u>

Financial Ratios:	Proforma (a)			
	<u>FYE June, 2008</u>			
Debt service coverage (x)	2.07	2.58	4.23	2.37
Debt/Unrestricted Net Assets (x)	1.32	1.21	0.64	0.94
Margin (%)		0.71%	3.74%	1.53%
Current Ratio (x)		2.04	1.19	1.18

(a) Recalculates 2008 audited results to include the impact of this proposed financing.

Financial Discussion:

FHCN's income statement appears to exhibit positive operating results with continued revenue growth from an increase in patient services.

FHCN has continued to post increases in unrestricted net assets during the review period, while expanding needed patient services.

Particular Facts to Note:

- FHCN experienced a 26% increase in net patient services revenue from FY 06 to FY 08. The increase in net patient services revenue is primarily attributable to an overall increase in billable visits during that time. FHCN expects visits and revenue to continue increasing, primarily due to anticipated population growth in FHCN's service area and the continued focus on opening additional health centers.
- Patient accounts receivable have experienced a 19% increase. FHCN attributes this increase to the organizational growth of the clinic. FHCN states the number of days outstanding for accounts receivable has declined, which FHCN believes makes the management of accounts receivable more efficient.
- FHCN's most significant expense line item is salaries and benefits. In order to support the extensive array of medical and dental services that FHCN provides, 75% of total expenses are related to salaries and benefits. This percent has ranged from 77% in 2006 to 75% in 2008. It is anticipated that the total percent of expenses spent on salaries and benefits will remain, on average, approximately 75% of total expenses.

FHCN's balance sheet appears strong with good liquidity, a strong current ratio, and significant net assets. In addition, proforma debt service coverage is solid.

FHCN's current balance sheet appears solid. As of June 30, 2008, FHCN had good liquidity of over \$1.1 million in cash and cash equivalents, unrestricted net assets in excess of \$7.1 million, and a strong current ratio of 2.04x. FHCN's long-term debt to unrestricted net assets is moderately high at 1.32x. Long-term debt increased during FY 2008 due to financing used to remodel and expand services at the Cutler-Orosi and Porterville facilities. FHCN's proforma debt service coverage ratio is a solid 2.07x, indicating FHCN should comfortably be able to repay the proposed loan.

III. UTILIZATION STATISTICS

Clients Served
Fiscal Year Ended June 30

	2006	2007	2008
Totals	76,861	83,185	90,344

IV. ORGANIZATION

Background and Licensing

FHCN is a private, non-profit community-based organization established in 1976. The organization is governed by a volunteer Board of Directors and has developed a comprehensive primary health care delivery system with center sites located in Porterville, Visalia, Ivanhoe, Woodlake, Springville, Three Rivers, Goshen, Hanford and Cutler-Orosi.

FHCN provides a full array of services that is required of a Federally Qualified Health Center. Specifically, FHCN provides: Family Medicine, Internal Medicine, Pediatrics, Obstetrics and Gynecology, Family Planning, Dentistry, Clinical Laboratory, Radiology, Mammography, Ultrasound, Integrated Complementary Alternative Medicine, Pharmacy, Health Education and Promotion, Translation, Integrated Behavioral Health, Nutritional Counseling, Community Outreach and Transportation services.

FHCN currently has over 90,000 patients enrolled within their service area. Services are provided by a team of highly qualified professionals working together in multi-disciplinary teams, including board certified physicians, certified nurse midwives, certified physician assistants, nurse practitioners, licensed clinical social workers and health educators, support staff and administrative staff. The organization utilizes various quality assurance processes and tools and was recognized particularly by the Joint Commission on Accreditation of HealthCare Organizations for their performance improvement programs.

The practice is multi-cultural with 74 percent of FHCN's patients identifying themselves as Hispanic and another 10 percent identifying themselves as Southeast Asian. Patients can receive their care through Spanish, Southeast Asian and English speaking providers. The vast majority of the staff members at FHCN are bilingual.

FHCN is licensed by the State of California as a community clinic. In 1989, the Federal and State governments designated FHCN as a Federally Qualified Health Center (FQHC). In 1997, FHCN became the first freestanding ambulatory care center in Tulare County to be accredited by the Joint Commission on Accreditation of HealthCare Organizations.

V. OUTSTANDING DEBT

<u>Date Issue:</u>	<u>Original Amount</u>	<u>Amount Outstanding as of 6/30/2008</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing Long-Term Debt:			
California Municipal Finance Authority (4/5/08)	\$7,910,000	\$7,910,000	\$ 7,910,000
Rural Community Assistance Corporation (2/1/99)	1,300,000	985,727	985,727
Proposed:			
CHFFA HELP II, 2009		<u>N/A</u>	<u>750,000</u>
Total Debt		<u>\$ 8,895,727</u>	<u>\$ 8,895,727</u>

VI. DUE DILIGENCE

Due diligence has been completed with regard to the following items:

- Savings Pass Through: FHCN has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): FHCN has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION

Staff recommends the Authority approve a resolution for a HELP II loan for Family HealthCare Network in an amount not to exceed \$750,000 for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority.